CLARKE

Halifax, Canada

Quarterly Report
March 31, 2021 and 2020

Management's Discussion & Analysis

Clarke Inc.

March 31, 2021 and 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis ("MD&A") presents management's view of the financial position and performance of Clarke Inc. ("Clarke" or the "Company") for the three months ended March 31, 2021 compared with the three months ended March 31, 2020. The following information is derived from the Company's unaudited interim condensed consolidated financial statements which are prepared in accordance with IAS 34, *Interim Financial Reporting*. This interim MD&A should be read in conjunction with the information disclosed within the interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2021, available on SEDAR at www.sedar.com. This MD&A provides an overall discussion, followed by analyses of the performance of the Company's major investments. The MD&A is prepared as at May 7, 2021 (unless otherwise stated). All dollar amounts are shown in millions of Canadian dollars unless otherwise indicated.

OVERVIEW & STRATEGY

Clarke is an investment company. Our objective is to maximize shareholder value. While not the perfect metric, we believe that Clarke's book value per share, together with the dividends paid to shareholders, is an appropriate measure of our success in maximizing shareholder value over time.

We attempt to maximize shareholder value by allocating capital to investments that we believe will generate high returns and reallocating capital over time as needed. In doing this, Clarke's goal is to identify investments that are either undervalued or are underperforming and may be in need of positive change. These investments may be companies, securities or other assets such as real estate, and they may be public entities or private entities. We do not believe in limiting ourselves to specific types of investments. Clarke seeks active involvement in the governance and/or management of the company in which it invests. In these cases, Clarke will have acquired the security with a view of changes that could be made to improve the underlying company's performance and maximize the company's value. When Clarke believes that an investee company has implemented appropriate changes and/or the value of the investee company has reached or exceeded its intrinsic value, Clarke may sell its investment. Clarke generally invests in industries that have hard assets, including manufacturing, industrial, energy and real estate businesses.

FIRST QUARTER REVIEW AND OUTLOOK

During the first quarter of 2021, the Company's book value per Common Share increased by $1.01, or 9.0%. The increase can primarily be ascribed to (i) an increase in the after-tax value of our pension plan surplus in an amount of $10.9 million, or $0.72 per Common Share, (ii) net unrealized and realized gains on our marketable securities of $8.3 million, or $0.55 per Common Share, offset by (iii) losses in our operating businesses and corporate overhead in an amount of $4.4 million, or $0.29 per Common Share. Our book value per Common Share at the end of the first quarter was $12.21 while our Common Share price was $7.75.

COVID-19

COVID-19 continues to have an adverse affect on the Company's operating business, particularly its hotels, driven by the decline in both leisure and business travel. The impact on the ferry business in the quarter was minimal as the ferry's season did not commence until April 1, 2021. However, with a continued decline in daily commuting activity, the ferry operations are expected to be subdued in 2021 compared to historic operating levels.

Regardless of the subdued revenues, the Company's efforts to significantly reduce costs and the positive impact of several government subsidies have allowed us to maintain operations and we expect to generate positive cash flow from these businesses in the year.

Holloway Lodging Corporation ("Holloway")

Hotel revenues and operating results in the first quarter of 2021 were relatively consistent with 2020's fourth quarter, indicating a stabilization rather than a further decline in demand. The performance of our individual hotels continues to vary widely, reflecting the variability amongst specific markets as it relates to alert levels and travel restrictions.

The results for the three months ended March 31, 2020 were only materially impacted by COVID-19 for several weeks, compared to the full quarter in 2021. While the quarterly results are significantly depressed from the same quarter in 2020, our outlook today has improved from one year ago when six of our hotels were temporarily shuttered and we were experiencing our lowest occupancy levels in Holloway's history. While we remain cautiously optimistic for the ultimate recovery of the travel industry and the performance of our hotels, we expect the subdued results to continue for several more quarters and the recovery to fluctuate across our markets with the impact of vaccinations, local government responses, and local economic activity.

We continue to work on the pre-construction phase of the redevelopment of our excess land at our Ottawa hotel site. We expect the construction phase to commence in the second quarter of 2021.

Trican Well Service Ltd. ("Trican")

We continue to see potential for significant upside in the oilfield services sector. Exploration and production companies maintain a conservative tone on 2021 spending, but we anticipate a thawing of many spending freezes as commodities stabilize at more supporting price levels. Trican is positioned to see significant upside from even modest pricing increases, and we anticipate this will be the story into the latter portion of 2021 and 2022.

During the three months ended March 31, 2021, we divested further as we continue to seek out the best use for capital. Clarke reduced its position by roughly 18 million common shares during the quarter. During the three months ended March 31, 2021, Clarke and related parties reduced its combined holdings to below 10% of the common shares outstanding of Trican.

Real Estate and Corporate

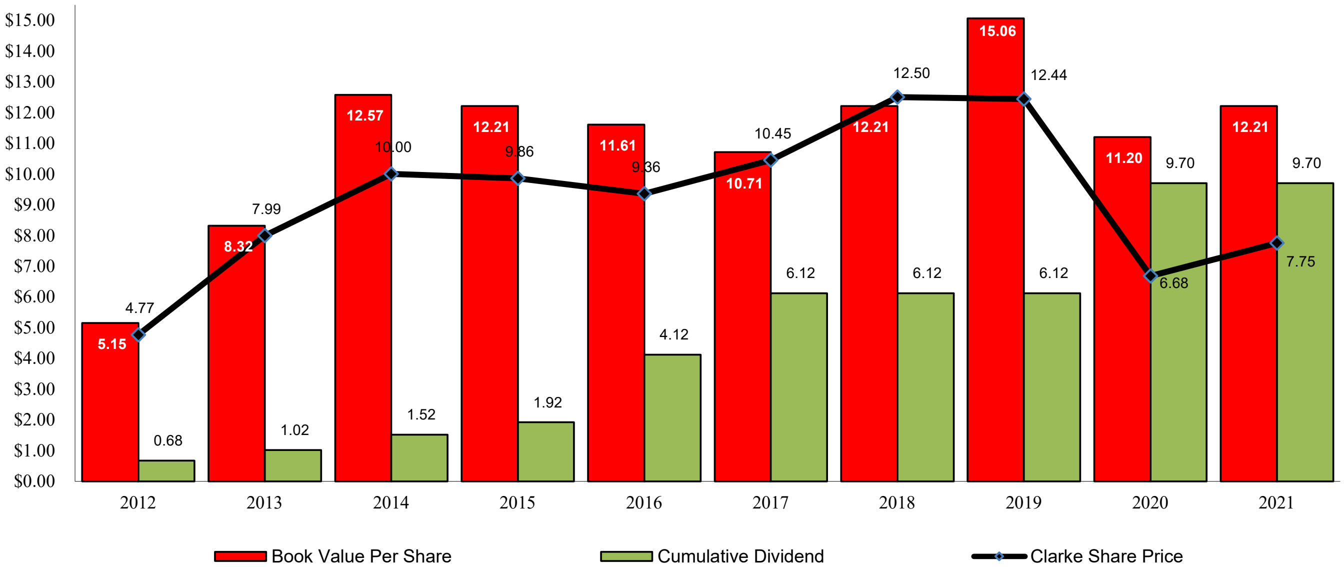
We continue to own three vacant office buildings in Houston, TX totalling approximately 435,000sf. We acquired these properties far below the cost at which they can be replaced, and we are actively working to redevelop and/or lease these properties. We also own a vacant parcel of land in Moncton, NB.

Subsequent to March 31, 2021, the Company entered into a joint venture with two other partners to acquire a one-third interest in a real estate development project in downtown Montreal that is currently under construction. The building is located at 1111 Atwater Avenue, the former site of the Montreal Children's Hospital, and the project involves a 38-storey building including seniors' housing and luxury condominiums, with extensive amenities for residents. The deal closed April 21, 2021, and the terms included cash consideration of approximately $21 million and the assumption of the Company's proportionate share of the construction financing of approximately $16 million.

We currently have $53 million of debt at the Clarke corporate level and $130 million of debt on a consolidated basis. We have availability under our corporate and subsidiary credit lines of $35 million.

BOOK VALUE PER SHARE

The Company's book value per share at March 31, 2021 was $12.21, an increase of $1.01 per Common Share since December 31, 2020. The following graph shows Clarke's book value per share, share price and cumulative dividends paid over the past ten years.



**All years as of December 31 except for current quarter as at March 31, 2021.*

RESULTS OF OPERATIONS

Highlights of the interim condensed consolidated financial statements for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 are as follows:

(in millions, except per share amounts)	**Three months ended March 31, 2021 $**	Three months ended March 31, 2020 $
Hotel and management services	**5.7**	13.8
Provision of services	**0.1**	0.2
Investment and other income (loss)*	**8.4**	(54.5)
Net income (loss)	**4.1**	(53.1)
Comprehensive income (loss)	**14.8**	(54.8)
Basic earnings (loss) per share ("EPS")	**0.27**	(3.26)
Diluted EPS	**0.25**	(3.26)
Total assets	**322.1**	281.0
Long-term financial liabilities	**108.6**	98.9
Book value per share	**12.21**	8.07

**Investment and other income (loss) include unrealized/realized gains/losses on investments, hotel revaluation losses, interest income, pension expense/recovery, insurance proceeds, gains/losses on disposal of assets, and foreign exchange gains/losses.*

Net income for the three months ended March 31, 2021 was $4.1 million compared to a net loss of $53.1 million for the same period in 2020. During the three months ended March 31, 2021, the Company had unrealized losses on its investments of $2.0 million compared to $65.0 million for the same period in 2020. The Company had realized gains on its investments of $10.2 million for the three months ended March 31, 2021 compared to $29.0 million for the same period in 2020.

SEGMENT REPORTING

The table below shows a breakdown by segment of the Company's holdings as at March 31, 2021 based on total assets. The Other category is not a segment and is disclosed for reconciliation purposes. It consists of our treasury and executive functions and the results of our pension plans.

	March 31, 2021		December 31, 2020	
Segment	**$**	**%**	$	%
Investment	**43.1**	**13.4**	68.9	22.2
Hospitality	**204.2**	**63.4**	207.8	66.8
Other	**74.8**	**23.2**	34.3	11.0
Total	**322.1**	**100.0**	311.0	100.0

Investment segment

The Company's investment segment is comprised of securities, a ferry business, and vacant office buildings in Houston, TX. In the first quarter of 2021, the Investment segment had unrealized losses on its investments of $2.0 million compared to $65.0 million for the same period in 2020 and had realized gains on its investments of $10.2 million compared with $29.0 million for the same period in 2020. At March 31, 2021, the Company's securities portfolio consist of equity and debt investments in publicly traded companies.

A summary of the change in the Company's securities portfolio is as follows:

	Three months ended March 31, 2021 $
Securities – beginning of period	**46.8**
Proceeds on sale	**(34.5)**
Purchases	**2.4**
Net realized and unrealized gains on securities	**8.2**
Securities – end of period	**22.9**

We also own three vacant office buildings and a passenger/car ferry operating on the St. Lawrence River under contract with the Government of Québec since 1973. The ferry does not operate during the first quarter of the year and completes its annual maintenance and repairs during this offseason period. We are pleased the opening of the season for the ferry commenced on April 1, 2021 and was not delayed as it was in 2020 as a result of the pandemic.

Hospitality segment

Holloway owns and operates hotels across Canada. Holloway's results for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 are as follows:

	Three months ended March 31, 2021 $	Three months ended March 31, 2020 $
Hotel operations	**5.7**	13.8
Investment and other income, net of hotel revaluation loss	**0.1**	(18.6)
Total revenue and other income (loss)	**5.8**	(4.8)
Less:		
Hotel operating expenses	**3.8**	9.7
General and administrative expenses	**0.1**	0.2
Property taxes and insurance	**0.4**	1.1
Depreciation and amortization	**2.5**	2.9
Interest expense	**0.7**	0.8
Loss before income taxes	**(1.7)**	(19.5)

Hotel occupancy in the first quarter declined significantly compared to the prior year but was consistent with our fourth quarter of 2020. We continue to use all available means to mitigate the impact of the revenue decline. These measures include significant staffing reductions in both hotel operations and corporate departments, availing to the Canadian Emergency Wage Subsidy, Canadian Emergency Rent Subsidy and other government programs and reducing operating expenses across all areas of our business.

OUTSTANDING SHARE DATA

At May 7, 2021, the Company had:

- An unlimited number of Common Shares authorized and 14,740,212 Common Shares outstanding;
- An unlimited number of First and Second Preferred Shares authorized and none outstanding; and
- 150,000 options to acquire Common Shares outstanding, 50,000 of which are vested.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended March 31, 2021, the Company eliminated its net short term debt position (a non-IFRS measure representing short-term indebtedness net of cash and cash equivalents) and went from negative net cash of $5.5 million to a positive cash position of $27.0 million without any short-term debt. This change is primarily a result of proceeds from marketable securities sold in the quarter.

Cash flow from operating activities

Cash used in operating activities was $0.6 million for the three months ended March 31, 2021, compared to $1.1 million during the same period in 2020. The cash used was driven primarily by interest, general and administrative and other expenses in excess of hospitality and ferry operating cash flow.

At March 31, 2021, working capital excluding securities was $18.6 million, compared to negative $9.1 million at December 31, 2020. The change is primarily from the marketable securities sold in the quarter.

Cash flow from investing activities

Cash provided by investing activities was $34.5 million for the three months ended March 31, 2021, compared to $2.5 million during the same period in 2020. The cash provided was primarily a result of proceeds from the sale of marketable securities of $34.5 million. Cash provided by investing activities during the same quarter in 2020 was a result of proceeds from the sale of marketable securities of $1.8 million and collections of loans receivable of $1.2 million, offset by additions of equipment and investment properties of $0.5 million.

Cash flow from financing activities

Cash used in financing activities was $9.6 million for the three months ended March 31, 2021, compared to $3.5 million during the same period in 2020. The cash used was related to the repayment of short-term borrowings of $8.2 million, repurchase of Common Shares of $0.8 million and the repayment of long-term debt of $0.6 million. Net cash used in financing activities during the quarter in 2020 was related to the repurchase of Common Shares of $4.6 million, and the repayment of long-term debt of $0.9 million, offset by the net proceeds of short-term borrowings of $2.0 million.

Available capital under credit facilities

The Company has access to credit facilities where certain of the Company's assets are pledged as collateral on two revolving credit facilities. At March 31, 2021, $35.6 million was available and nil was drawn on these facilities. Declines in the fair value and operating results of pledged assets may have an adverse effect on the amount of credit available under these facilities.

SUMMARY OF QUARTERLY RESULTS

Key financial information for the current and preceding seven quarters is as follows:

Three months ended	Jun. 2019 $	Sep. 2019 $	Dec. 2019 $	Mar. 2020 $	Jun. 2020 $	Sep. 2020 $	Dec. 2020 $	Mar. 2021 $
Revenue and other income (loss)	20.5	21.3	22.8	(40.6)	17.5	23.1	26.9	14.3
Net income (loss)	0.6	(3.6)	5.7	(53.1)	6.9	12.5	14.5	4.1
Other comprehensive income (loss)	(3.5)	(0.4)	5.2	(1.7)	(2.5)	(2.1)	15.1	10.7
Comprehensive income (loss)	(2.9)	(4.0)	10.9	(54.8)	4.4	10.4	29.6	14.8
Basic EPS (in dollars)	(0.13)	(0.24)	0.36	(3.26)	0.43	0.79	0.94	0.27
Diluted EPS (in dollars)	(0.13)	(0.24)	0.34	(3.26)	0.38	0.67	0.79	0.25

As seen in the table above, our results can fluctuate significantly from quarter to quarter, in part as a result of certain accounting standards the Company follows, and as a result of fluctuations in the market prices of our securities portfolio. Under IFRS, realized and unrealized gains and losses on our publicly-traded securities are recorded in "revenue" on our consolidated statements of earnings. The Company does not believe that quarterly fluctuations in the stock prices of our investee companies necessarily reflect a change in the value of the underlying businesses in which we are invested. The values of the underlying businesses are often more stable than their stock prices reflect. Clarke views its investments on a longer-term basis as opposed to on a quarter-to-quarter basis. These fluctuations, however, often provide us with an opportunity to invest more capital in particular investments that we like or vice-versa. Holloway's business is seasonal in nature and the results fluctuate throughout the year. The revenues are generally highest in the third quarter due to increased leisure travel during the summer months. While certain expenses fluctuate according to occupancy levels, other expenses such as property taxes, insurance and interest are fixed and are incurred evenly throughout the year.

FINANCIAL INSTRUMENTS

In the normal course of operations, the Company uses the following financial and other instruments:

- To generate investment returns, the Company will invest in equity, debt and other securities. These instruments may have interest rate, market, credit and foreign exchange risk associated with them.

- To manage foreign exchange, interest rate and general market risk, the Company may enter into futures and forward exchange contracts. These instruments may have interest, market, credit and foreign exchange risk associated with them. Clarke sometimes hedges its foreign currency exposure on U.S. dollar denominated investments. The marketable securities subject to foreign currency exposure at March 31, 2021 are not currently hedged.

As an investment company, Clarke has a significant number of financial instruments. Notes 1, 2, 3, 4, 5, 11, 12, 13, 14 and 24 to the consolidated financial statements for the year ended December 31, 2020 and the Company's 2020 AIF, provide further information on classifications in the financial statements, and risks, pertaining to the use of financial instruments by the Company, as well as further information on the risks and uncertainties of estimates, liquidity, and credit as a result of COVID-19.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The implementation of Canadian Securities Administrators National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings represents a continuous improvement process, which has prompted the Company to formalize existing processes and control measures and to introduce new ones. The objective of this instrument is to improve the quality, reliability, and transparency of information that is filed or submitted under securities regulation.

In accordance with this instrument, the Company has filed certificates signed by the President & Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the President & Chief Executive Officer and the Chief Financial Officer, particularly during the period in which annual filings are being prepared. Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's disclosure controls and procedures or internal controls over financial reporting during the three months ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal controls over financial reporting.

RELATED PARTY TRANSACTIONS

The Company was party to related party transactions during the three months ended March 31, 2021. All related party transactions were in the normal course of operations and occurred at fair value. For full details of the Company's related party transactions, please refer to Note 15 of our consolidated financial statements for the year ended December 31, 2020 and Note 9 of the interim condensed consolidated financial statements for the three months ended March 31, 2021.

ENVIRONMENTAL MATTERS

The Company's businesses are exposed to the following environmental risks in conducting regular operations: (i) contamination of owned or leased property; and (ii) contamination of the environment relating to spills or leaks originating from the Company's ferry.

The Company's businesses regularly review their operations and facilities to identify any potential environmental contamination or liability. Limited internal reviews, which may include third party environmental assessments, have been conducted at all the Company's wholly-owned real estate. These limited reviews identified no material remediation issues and potential risks and there have been no material events arising subsequently that would indicate additional obligations.

The Company believes it and its businesses comply in all material respects with all relevant environmental laws and regulations. The Company is not aware of any material uninsured pending or proceeding actions against it or any of its businesses relating to environmental issues.

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS ACCOUNTING MEASURES

This MD&A makes reference to the Company's book value per share as a measure of the performance of the Company as a whole. Book value per share is measured by dividing shareholders' equity of the Company at the date of the statement of financial position by the number of Common Shares outstanding at that date. Clarke's method of determining this amount may differ from other companies' methods and, accordingly, this amount may not be comparable to measures used by other companies. This amount is not a performance measure as defined under IFRS and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS.

FORWARD-LOOKING STATEMENTS

This MD&A may contain or refer to certain forward-looking statements relating, but not limited, to the Company's expectations, intentions, plans and beliefs with respect to the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "does not expect", "is expected", "budgets", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", "believes", or equivalents or variations of such words and phrases, or state that certain actions, events or results, "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements include, without limitation, those with respect to the future or expected performance of the Company's investee companies, the future price and value of securities held by the Company, changes in these securities holdings, the future price of oil and value of securities held by the Company, changes to the Company's hedging practices, currency fluctuations and requirements for additional capital. Forward-looking statements rely on certain underlying assumptions that, if not realized, can result in such forward-looking statements not being achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, the Company's investment strategy, legal and regulatory risks, general market risk, potential lack of diversification in the Company's investments, interest rates, foreign currency fluctuations, the sale of Company investments, the fact that dividends from investee companies are not guaranteed, reliance on key executives, commodity market risk, risks associated with investment in derivative instruments and other factors. With respect to the Company's investment in hotel and ferry operations, such risks and uncertainties include, among others, weather conditions, safety, claims and insurance, labour relations, and other factors.

Although the Company has attempted to identify important factors that could cause actions, events or results not to be as estimated or intended, there can be no assurance that forward-looking statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Other than as required by applicable Canadian securities laws, the Company does not update or revise any such forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Accordingly, readers should not place undue reliance on forward-looking statements.

Clarke Inc.

March 31, 2021 and 2020

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (in thousands of Canadian dollars)

	March 31, 2021	December 31, 2020
	$	$
ASSETS		
Current		
Cash	**27,014**	2,730
Marketable securities *(note 5)*	**22,945**	46,760
Receivables	**3,463**	3,707
Inventories	**90**	92
Income taxes receivable	**—**	349
Prepaid expenses	**1,019**	819
Current portion of loans receivable *(note 2)*	**2,930**	725
Asset held-for-sale *(note 2)*	**—**	2,415
Total current assets	**57,461**	57,597
Accrued pension benefit asset *(note 3)*	**48,760**	33,823
Property and equipment	**178,112**	180,417
Investment properties	**19,040**	19,276
Loans receivable	**1,242**	1,250
Deferred income tax assets *(note 6)*	**17,063**	18,286
Other assets	**378**	377
Total assets	**322,056**	311,026
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Short-term indebtedness	**—**	8,243
Accounts payable and accrued liabilities	**7,483**	4,903
Income taxes payable	**320**	—
Accrued interest on convertible debentures	**1,322**	529
Current portion of long-term debt	**6,732**	6,240
Total current liabilities	**15,857**	19,915
Convertible debentures	**50,754**	50,754
Long-term debt	**56,973**	58,056
Lease obligations	**837**	870
Deferred income tax liabilities *(note 6)*	**15,022**	12,827
Total liabilities	**139,443**	142,422
Shareholders' equity		
Share capital *(note 4)*	**88,524**	89,097
Contributed surplus	**7,331**	7,512
Retained earnings	**29,149**	25,093
Accumulated other comprehensive income	**57,609**	46,902
Total shareholders' equity	**182,613**	168,604
Total liabilities and shareholders' equity	**322,056**	311,026

See accompanying notes to the interim condensed consolidated financial statements

On behalf of the Board:

/s/ George Armoyan
Director

/s/ Blair Cook
Director

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

Unaudited (in thousands of Canadian dollars, except per share amounts)

	Three months ended March 31, 2021	Three months ended March 31, 2020
	$	$
Revenue and other income		
Hotel and management services *(note 10)*	**5,716**	13,778
Provision of services	**143**	158
Investment and other income (loss) *(note 5)*	**8,396**	(54,515)
	14,255	(40,579)
Expenses		
Hotel operating expenses *(note 10)*	**4,204**	10,319
Cost of services provided	**681**	787
General and administrative expenses	**663**	652
Property taxes and insurance	**416**	1,131
Share-based payment expense	**44**	15
Depreciation	**2,548**	2,960
Interest expense and accretion on debt	**1,539**	1,867
	10,095	17,731
Income (loss) before income taxes	**4,160**	(58,310)
Provision for (recovery of) income taxes *(note 6)*	**104**	(5,188)
Net income (loss)	**4,056**	(53,122)
Basic earnings (loss) per share:		
(in dollars) (note 4)	**0.27**	(3.26)
Diluted earnings (loss) per share:		
(in dollars) (note 4)	**0.25**	(3.26)

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Unaudited (in thousands of Canadian dollars)

	Three months ended March 31, 2021 $	Three months ended March 31, 2020 $
Net income (loss)	**4,056**	(53,122)
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Remeasurement gains (losses) on defined benefit pension plans, net of income tax expense of $4,039 (2020 – recovery of $1,128) *(note 3)*	**10,910**	(2,932)
Items that may be reclassified subsequently to profit of loss		
Translation of net investment in foreign operations, net of income tax recovery of $34 (2020 – expense of $376)	**(203)**	1,227
Other comprehensive income (loss)	**10,707**	(1,705)
Comprehensive income (loss)	**14,763**	(54,827)

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of Canadian dollars)

	Three months ended March 31, 2021 $	Three months ended March 31, 2020 $
OPERATING ACTIVITIES		
Net income (loss)	**4,056**	(53,122)
Adjustments for items not involving cash *(note 7)*	**(6,247)**	52,727
	(2,191)	(395)
Net change in non-cash working capital balances *(note 7)*	**1,599**	(728)
Net cash used in operating activities	**(592)**	(1,123)
INVESTING ACTIVITIES		
Proceeds on disposition of marketable securities	**34,537**	1,832
Proceeds on disposition of asset held-for-sale *(note 2)*	**210**	—
Additions of property and equipment	**(245)**	(462)
Additions to investment properties	**—**	(74)
Collections of loans receivable	**—**	1,217
Net cash provided by investing activities	**34,502**	2,513
FINANCING ACTIVITIES		
Repurchase of shares for cancellation *(note 4)*	**(754)**	(4,649)
Net proceeds (repayments) of short-term indebtedness	**(8,243)**	2,007
Repayment of long-term debt and payment of deferred financing fees	**(596)**	(864)
Principal payments of lease obligation	**(33)**	(31)
Net cash used in financing activities	**(9,626)**	(3,537)
Net change in cash during the period	**24,284**	(2,147)
Cash, beginning of period	**2,730**	2,530
Cash, end of period	**27,014**	383

See accompanying notes to the interim condensed consolidated financial statements

Clarke Inc.

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Unaudited (in thousands of Canadian dollars)

	Three months ended March 31, 2021 $	Three months ended March 31, 2020 $
Share capital		
Common shares:		
Balance at beginning of period	**89,097**	98,051
Common shares repurchased for cancellation *(note 4)*	**(573)**	(2,117)
Balance at end of period	**88,524**	95,934
Contributed surplus		
Balance at beginning of period	**7,512**	7,302
Purchase price in excess of the book value of common shares repurchased for cancellation (note 4)	**(181)**	—
Balance at end of period	**7,331**	7,302
Retained earnings		
Balance at beginning of period	**25,093**	104,511
Net income (loss)	**4,056**	(53,122)
Dividends declared	—	(58,120)
Purchase price in excess of the book value of common shares repurchased for cancellation	—	(2,532)
Residual balance of previously expensed equity-settled stock options	—	444
Balance at end of period	**29,149**	(8,819)
Accumulated other comprehensive income		
Balance at beginning of period	**46,902**	38,149
Other comprehensive income (loss)	**10,707**	(1,705)
Balance at end of period	**57,609**	36,444
Share-based payments		
Balance at beginning of period	—	1,574
Cash settlement of share-based payments	—	(1,130)
Reclassification to retained earnings of residual balance of previously expensed equity-settled stock options	—	(444)
Balance at end of period	—	—
Total shareholders' equity	**182,613**	130,861

See accompanying notes to the interim condensed consolidated financial statements

Unaudited (in thousands of Canadian dollars, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Clarke Inc. (the "Company") was incorporated on December 9, 1997 pursuant to the Canada Business Corporations Act. The head office of the Company is located at 145 Hobsons Lake Drive, Halifax, Nova Scotia. The Company is an investment holding company with investments in a diversified group of businesses, operating primarily in Canada. The Company continuously evaluates the acquisition, retention and disposition of its investments. Changes in the mix of investments should be expected. These interim condensed consolidated financial statements were approved by the Board of Directors on May 7, 2021.

Basis of presentation and statement of compliance

These interim condensed consolidated financial statements for the three months ended March 31, 2021, were prepared in accordance with IAS 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2020. These interim condensed consolidated financial statements for the three months ended March 31, 2021 should be read together with the annual consolidated financial statements for the year ended December 31, 2020.

Principles of consolidation

The interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries of the Company are Holloway Lodging Corporation ("Holloway") and, prior to September 1, 2020, La Traverse Rivière-du-Loup – St. Siméon Limitée ("La Traverse"). La Traverse was amalgamated with the Company effective September 1, 2020. All intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting period end as the Company, and all follow the same accounting policies.

2. ASSET HELD-FOR-SALE

Prior to December 31, 2020, the Company entered into an agreement to sell a hotel which was leased, on a triple net basis, to a third party under a lease agreement. The sale closed on January 15, 2021 for gross proceeds of $2,430. After closing costs and a vendor take-back loan ("VTB") receivable of $2,205, the net cash proceeds were $210. The VTB has a term of one year and bears interest at 10%.

3. EMPLOYEE FUTURE BENEFITS

Reconciliations of the funded status of the benefit plans to the amounts recorded on the interim consolidated statements of financial position are:

	March 31, 2021 **$**	December 31, 2020 $
Fair value of plan assets	**97,781**	88,245
Accrued benefit obligation	**(49,021)**	(54,422)
Funded status of plans – accrued pension benefit asset	**48,760**	33,823

The defined benefit pension expense recognized in the interim consolidated statements of earnings (loss) for the three months ended March 31, 2021 was $12 (2020 – recovery of $59).

3. EMPLOYEE FUTURE BENEFITS (CONT'D)

Elements of the defined benefit recovery (expense) recognized in other comprehensive income (loss) are as follows:

	Three months ended March 31, 2021	Three months ended March 31, 2020
	$	$
Net remeasurement gains (losses)	**14,949**	(4,060)
Deferred income tax recovery (expense)	**(4,039)**	1,128
Defined benefit recovery (expense) recognized	**10,910**	(2,932)

Significant assumptions

	March 31, 2021	December 31, 2020
	%	%
Accrued benefit obligation – discount rate	**3.25**	2.50
Benefit costs for the period – expected return on plan assets	**2.50**	3.10

4. SHARE CAPITAL AND EARNINGS PER SHARE

	March 31, 2021		December 31, 2020	
	# of shares	**$**	# of shares	$
Common shares				
Outstanding common shares, beginning of period	**15,057,892**	**89,097**	16,571,184	98,051
Common shares repurchased for cancellation	**(96,824)**	**(573)**	(1,513,292)	(8,954)
Outstanding common shares, end of period	**14,961,068**	**88,524**	15,057,892	89,097

Earnings per share

The following table reconciles the basic and diluted per share computations from continuing operations:

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Earnings	**Weighted average shares (in thousands)**	**Per share amount**	Loss	Weighted average shares (in thousands)	Per share amount
	$	**#**	**$**	$	#	$
Basic earnings (loss) per share	**4,056**	**15,045**	**0.27**	(53,122)	16,308	(3.26)
Interest, net of income taxes, on assumed conversion of convertible debentures	**563**	**3,694**		—	—	
Diluted earnings (loss) per share	**4,619**	**18,739**	**0.25**	(53,122)	16,308	(3.26)

**All potentially dilutive securities issued relate to the Company's stock options and convertible debentures. The stock options were anti-dilutive for the three months ended March 31, 2021. The stock options and convertible debentures were anti-dilutive for the three months ended March 31, 2020.*

Unaudited (in thousands of Canadian dollars, except per share amounts)

4. SHARE CAPITAL AND EARNINGS PER SHARE (CONT'D)

Substantial issuer bid ("SIB")

In the three months ended March 31, 2021, the Company purchased for cancellation 20,524 common shares under an SIB at a cost of $154 ($7.50 per common share). The purchase price in excess of the historical book value of the shares in the amount of $32 has been charged to contributed surplus and $122 has been charged to share capital.

Normal course issuer bid ("NCIB")

In the three months ended March 31, 2021, the Company purchased for cancellation 76,300 (2020 – 357,700) common shares under an NCIB at a cost of $600 (2020 – $4,649). The purchase price in excess of the historical book value of the shares in the amount of $149 (2020 – nil) has been charged to contributed surplus, nil (2020 – $2,532) has been charged to retained earnings, and $451 (2020 – $2,117) has been charged to share capital.

5. INVESTMENT AND OTHER INCOME (LOSS)

Investment and other income (loss) is comprised of the following:

	Three months ended March 31, 2021 $	Three months ended March 31, 2020 $
Unrealized losses on investments	**(1,952)**	(65,013)
Realized gains on investments	**10,229**	29,008
Revaluation loss of hotel properties	**—**	(18,800)
Interest income	**141**	152
Pension recovery (expense) *(note 3)*	**(12)**	59
Insurance proceeds, net of clean-up and other costs	**—**	19
Loss on disposal of assets	**—**	(11)
Foreign exchange gains (losses)	**(10)**	71
	8,396	(54,515)

During the three months ended March 31, 2021, the Company sold marketable securities for net proceeds of $34,537 (2020 – $1,832). During the three months ended March 31, 2020, the Company recorded a revaluation loss on its property and equipment in the amount of $18,800 as a response to the decrease in its hotel operations from COVID-19.

6. INCOME TAXES

The provision for (recovery of) income taxes consists of:

	Three months ended March 31, 2021 $	Three months ended March 31, 2020 $
Current	**691**	(243)
Deferred	**(587)**	(4,945)
Provision for (recovery of) income taxes	**104**	(5,188)

Unaudited (in thousands of Canadian dollars, except per share amounts)

6. INCOME TAXES (CONT'D)

As at March 31, 2021, the Company had non-capital losses carried forward for tax purposes of $29,681 (December 31, 2020 – $32,970) in Canada and US$8,079 (December 31, 2020 – US$7,786) in the United States and capital losses carried forward for tax purposes of $7,867 (December 31, 2020 – $4,787).

Certain deferred income tax assets have not been recognized. They are as follows:

	March 31, 2021	December 31, 2020
	$	$
Marketable securities	**1,852**	1,842
Property and equipment	**2,454**	2,430
Non-capital and capital loss carry forwards	**2,301**	2,286
Total	**6,607**	6,558

7. SUPPLEMENTAL CASH FLOW INFORMATION

Adjustments for items not involving cash	**Three months ended March 31, 2021 $**	Three months ended March 31, 2020 $
Realized/unrealized losses (gains) on investments *(note 5)*	**(8,277)**	36,005
Depreciation	**2,548**	2,960
Revaluation of hotel properties	**—**	18,800
Deferred income tax recovery *(note 6)*	**(587)**	(4,945)
Share-based payment expense	**44**	15
Amortization of fair value increments from acquisition	**(41)**	(48)
Accretion on debt	**46**	55
Unrealized foreign exchange losses (gains)	**8**	(67)
Pension expense (recovery) *(note 3)*	**12**	(59)
Loss on disposal of assets	**—**	11
	(6,247)	52,727

Net changes in non-cash working capital balances	**Three months ended March 31, 2021 $**	Three months ended March 31, 2020 $
Receivables	**244**	707
Inventories	**2**	6
Income taxes receivable	**349**	(277)
Prepaid expenses	**(200)**	(257)
Accounts payable and accrued liabilities	**91**	(424)
Income taxes payable	**320**	(148)
Accrued interest on convertible debentures	**793**	795
Settlement of share-based liability	**—**	(1,130)
	1,599	(728)

Unaudited (in thousands of Canadian dollars, except per share amounts)

8. SEGMENTED INFORMATION

The Company operates in two reportable business segments. The Investment segment represents the Company's marketable securities portfolio, consisting of publicly traded equity securities at fair value through profit or loss, the Company's ferry business and the Company's vacant office buildings included in investment properties. The Hospitality segment consists of the Company's ownership and operation of hotels. The Other category is not a segment and is disclosed for reconciliation purposes. The Other category consists of our treasury and executive functions, the results of our pension plans and the interest payable on our debentures. Revenue from external customers earned in the Other category pertains primarily to management service fees.

Transactions between the segments are recorded at fair value, which is the amount of consideration established and agreed to by management of the segments. Reconciling items represent inter-segment eliminations for services provided between segments.

Three months ended March 31, 2021	**Investment $**	**Hospitality $**	**Other $**	**Eliminations $**	**Total $**
Revenue and other income:					
Hotel revenue and provision of services	**—**	**5,715**	**144**	**—**	**5,859**
Investment and other income (loss)	**8,277**	**131**	**(12)**	**—**	**8,396**
	8,277	**5,846**	**132**	**—**	**14,255**
Operating expenses before the undernoted	**1,234**	**4,320**	**410**	**—**	**5,964**
Share-based payment expense	**—**	**—**	**44**	**—**	**44**
Depreciation and amortization	**23**	**2,465**	**60**	**—**	**2,548**
Interest expense	**14**	**716**	**809**	**—**	**1,539**
Income (loss) before income taxes	**7,006**	**(1,655)**	**(1,191)**	**—**	**4,160**
Assets	**43,045**	**204,170**	**74,841**	**—**	**322,056**
Liabilities	**5,385**	**65,843**	**68,215**	**—**	**139,443**
Capital expenditures during the period	**—**	**245**	**—**	**—**	**245**
Assets located outside of Canada	**18,873**	**—**	**—**	**—**	**18,873**

Three months ended March 31, 2020	Investment $	Hospitality $	Other $	Eliminations $	Total $
Revenue and other income:					
Hotel revenue and provision of services	—	13,778	172	(14)	13,936
Investment and other income (loss)	(36,005)	(18,573)	63	—	(54,515)
	(36,005)	(4,795)	235	(14)	(40,579)
Operating expenses before the undernoted	1,398	11,061	444	(14)	12,889
Share-based payment expense	—	—	15	—	15
Depreciation and amortization	89	2,849	22	—	2,960
Interest expense	26	807	1,034	—	1,867
Loss before income taxes	(37,518)	(19,512)	(1,280)	—	(58,310)
Assets	36,050	219,500	25,505	(8)	281,047
Liabilities	3,008	76,250	70,936	(8)	150,186
Capital expenditures during the period	—	363	—	—	363
Assets located outside of Canada	19,119	—	—	—	19,119

8. SEGMENTED INFORMATION (CONT'D)

The Company operates predominantly in Canada, with the exception of three investment properties in the United States. Hotel revenue and provision of services was all generated by operations in Canada for the three months ended March 31, 2021 and 2020.

9. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2021, the Company purchased marketable securities through the facilities of the Toronto Stock Exchange from the Clarke Inc. Master Trust, which holds the units of the pension plans administered by the Company. The purchase totalling US$1,956 was made for investment purposes.

10. IMPACT OF COVID-19

The global pandemic related to COVID-19 has continued to adversely impact the Company's operations during the three months ended March 31, 2021, particularly the hotel operations. The Company believes it has access to sufficient capital through cash on hand, operating cash flows and existing or other borrowing facilities to meet its obligations. As a result, no further deferrals of interest or principal on our loans and mortgages payable have been requested. As at March 31, 2021, the Company had cash of $27,014 and available unused credit facilities totalling $35,559.

The Company continues to have no material expected credit losses on our receivables and loans receivable.

The Company continues to apply for the Canada Emergency Wage Subsidy, the Canadian Emergency Rent Subsidy and other less significant sources of federal, provincial and territorial government grants. The Company has recorded $2,593 in the three months ended March 31, 2021 for these various programs.

11. SUBSEQUENT EVENTS

Subsequent to March 31, 2021, the Company entered into a joint operation real estate project in Montreal, QC with two partners. The investment represents a one-third stake in the project which is currently under construction. The project involves a 38-storey building including seniors' housing and luxury condominiums. The transaction closed on April 21, 2021, and the terms included cash consideration of approximately $21,000 and the assumption of the Company's proportionate share of the construction financing of approximately $16,000.

Subsequent to March 31, 2021, the Company received a pre-tax distribution from one of its pension plans in the amount of $1,244 in accordance with the surplus withdrawal rules of the Quebec Supplemental Pension Plans Act.

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